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TO RUEHC/SECSTATE WASHDC PRIORITY 4723
INFO RUCNCLM/MCC CANDIDATE COUNTRY COLLECTIVE PRIORITY
RUEHDS/AMEMBASSY ADDIS ABABA PRIORITY 3053
RUEHKM/AMEMBASSY KAMPALA PRIORITY 2830
RUEHKI/AMEMBASSY KINSHASA PRIORITY 0209
RUEHLS/AMEMBASSY LUSAKA PRIORITY 1726
RUEHMS/AMEMBASSY MUSCAT PRIORITY 0016
RUEHNR/AMEMBASSY NAIROBI PRIORITY 0254
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 DAR ES SALAAM 001504

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SUBJECT: KIKWETE'S CABINET APPROVES MCA COMPACT PROPOSAL

REF: DAR ES 0165

Classified By: D. Purnell Delly, Charge d'Affaires for reason 1.4(d)

11. (SBU) SUMMARY. On August 28, President Kikwete and Cabinet officially approved the Government of Tanzania's (GOT's) Millennium Challenge Account (MCA) Compact proposal for submission to Millennium Challenge Corporation (MCC) Washington. The GOT's proposal focuses on strengthening Tanzania's infrastructure network in three key sectors: transport, water and energy. The total cost of all proposed projects is USD 799 million, with 48 percent of the budget for road construction and airport upgrades, 30 percent for water and sanitation projects, and 16 percent for rural electrification. The recent submission signals that Tanzania is on track with the Compact process, meeting key target dates set forth by MCC. The GOT's Coordinator for the MCA Compact, Bernard Mchomvu, has proved skillful in working through Tanzania's bureaucracy, establishing an appropriate structure for the process, and identifying potential areas of sensitivity or concern. Important next steps include the internal presentation of an "Opportunity Memo" by the MCC Country Team to the Investment Committee and MCC's due diligence of all projects proposed by the GOT. END SUMMARY.

Kikwete's Cabinet Approves MCA Compact Proposal

12. (SBU) On August 28, President Kikwete's Cabinet reviewed and approved the Government of Tanzania's (GOT) recently completed Millennium Challenge Account (MCA) Compact proposal. With Cabinet approval, the GOT formally submitted the proposal to the Millennium Challenge Corporation's (MCC) country team, led by Country Director, Gretchen Brevnov. The GOT managed to achieve submission within the six month time frame set by the MCC delegation after its initial visit to Tanzania in February 2006.

13. (C) According to the GOT's MCC Coordinator, Bernard Mchomvu, the Cabinet approved the proposal with no substantive changes and with the full support of President Kikwete and his Ministers. Mchomvu told Econoff on August 30 that President Kikwete had read not only the Cabinet paper summary but the entire MCA 70 page proposal. Mchomvu noted that "President Kikwete stressed his support for the proposal and asked his Ministers if they had any comments. The Ministers raised no objections and instead emphasized that they needed this development assistance 'yesterday'."

Tanzania's Proposal: Improving Infrastructure

14. (SBU) The GOT's proposal focuses on strengthening and expanding Tanzania's infrastructure network with projects in three primary sectors: transport, water and energy. The stated objective is to stimulate broad-based economic growth and poverty reduction by addressing supply side constraints and improving access to basic services. Based largely on Tanzania's recently completed National Strategy for Growth and Reduction of Poverty (known in Swahili as "MKUKUTA"), the proposal reflects discussions within the GOT's Ministries and between the GOT and Tanzania's private sector and civil society.

15. (SBU) Tanzania's proposed projects for transport, water and energy total USD 799.2 million. Projects in the transport sector amount to USD 386.6 million (or 48.4 percent of the total), while projects in the water and energy sectors amount to USD 243 million (30.4 percent) and USD 130.6 million (16.3 percent) respectively. The following chart outlines the proposed projects and associated costs:

Sector	Project Name	USD (millions)
Transport	Tunduma-Sumbawanga Road (224.5km)	112.000
Transport	Tanga-Horohoro (68km)	34.000
Transport	Tunduru-Songea (263km)	130.000
Transport	Songea-Mbamba (144.5km)	50.204
Transport	Upgrade Kigoma Airport	9.000
Transport	Upgrade Mafia Airport	8.570
Transport	Zanzibar Rural Roads	42.818
TRANSPORT Total:		386.593
Water	Kidunda Dam	126.000

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Water	Bunena and Kagemu Water intakes,	9.378
Water	Morogoro water supply systems	2.192
Water	Pemba Water supply	11.616
Water	Zanzibar Town sanitation	11.500
Water	Misungwi Town Water Supply	12.516
Water	Bunda Town Water Supply	4.628
Water	Bariadi Town Water Supply	3.000
Water	Tarime Water Supply	9.000
Water	Geita Town Water Supply	17.134
Water	Rural Water Supply (Ungujga, Pemba)	12.077
Water	Monitoring and Assessment	8.200
Water	Water quality Laboratories	6.000
Water	River Basin Organizations	9.800
WATER Total:		243.041
Energy	Electrification of 12 District HQs	25.160
Energy	Nakatuta Small Hydropower Plant	31.100
Energy	Malagarasi Small Hydropower Plant	24.340
Energy	Zanzibar Submarine Cable	50.000
	Interconnection Improvement	
ENERGY Total:		130.600
Total all sectors:		760.233
Program Management Budget (MCA Team):		39.000
TOTAL:		799.233

Sensitive Areas: Kidunda Dam, Fiscal Management on Zanzibar

16. (C) When questioned on potential areas of sensitivity within the proposal, Mchomvu highlighted two: the Kidunda dam and the management of funds for project implementation on Zanzibar. In terms of the dam, Mchomvu said that although due diligence would be completed by the MCC Team, "some issues on the environmental front, which are characteristically associated with dams may be raised." With respect to Zanzibar, Mchomvu pointed out that the GOT's proposal calls for project funds to be managed by the relevant ministries including ministries on Zanzibar. "While the MCC Country Team has indicated a level of comfort with such an arrangement on the Mainland, the Team is less confident in the financial management and accountability

structures on Zanzibar. This could be one area where political sensitivities arise," Mchomvu noted.

Comment: MCC Compact Process Moving Forward in Tanzania

17. (C) The GOT's recent submission signals that the MCA Compact process is on track in Tanzania. After gaining MCA Compact eligibility, President Kikwete wasted no time after assuming office in December 2005 to appoint Bernard Mchomvu, a well-respected and competent coordinator, to lead the process. Mchomvu has proved highly adept at working within GOT's bureaucracy, organizing countless consultative sessions with relevant Ministries. Mchomvu also ensured establishment of a proper support structure: the creation of a Tanzanian MCC Steering Committee to guide the process and a Technical Core Team for implementation. Now that the GOT has submitted its proposal, the ball is back in MCC Washington's court, with key next steps including the Country Team's "Investment Opportunity Memo" and its due diligence process to assess the GOT's proposed projects.

18. (C) Despite one or two sensitive areas, the MCC Compact is development assistance which the Kikwete administration is anxiously awaiting. When his Ministers said they wanted such projects "yesterday," President Kikwete expressed his hope that money could be disbursed as early as May 2007. MCC Washington has not yet provided even a tentative date for Compact signing or disbursement of funds, saying that the process could take anywhere from nine to twelve months from submission of the GOT's proposal. END COMMENT.
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